Approved April 27, 2001
Date

MINUTES OF THE HOUSE COMMITTEE ON TAXATION

The meeting was called to order by the Chairman Edmonds at 8:30 a.m. March 26 in Room 519-S of the Capitol.

All members were present except: Representative Howell, excused

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor
Winnie Crapson, Secretary

Conferees appearing before the committee:
Senator Haley
Candy Shively, Deputy Secretary, SRS
Ned Webb, Dept. of Commerce & Housing
Dr. Christopher Smith, Assistive Technology for Kansas Project
Brenda Eddy, Assistive Technology for Kansas Project
Mary Ellen O'Brien Wright, Assistive Technology for Kansas Project
Jennifer and Jessica Schwartz, Lawrence
Dr. Deborah Page-Adams, School of Social Welfare, Kansas Univ.
Karen Edwards, Washington University, St. Louis
Laura Loyacono, Ewing Marion Kauffman Foundation, Kansas City

Others attending: See attached list.

Without objection bill will be introduced on school finance proposal. **[HB 2578** - School district finance and appropriations relating thereto]

Without objection bill will be introduced on school finance for enhancements including affordable community housing weighting. **[HB 2577** - School district finance, teachers' enhancement for affordable community housing weighting**]**

Motion was made by Representative Larkin to approve Minutes of meetings February 28, March 1, March 6, March 7, March 8, and March 12. Representative Gilbert seconded and motion was adopted.

Hearing was opened on
SB 332 - Establish the individual development account program and individual development reserve fund.

Testimony was presented in support of the bill by Christopher L. Smith, Ph.D., Assistive Technology for Kansas Project affiliated with the University of Kansas (Attachment #1). Dr. Smith described the Project and testified over 60 agencies and organizations provide services to persons with disabilities and are actively involved with its efforts.

Brenda Eddy, Assistive Technology for Kansans, presented testimony in support **SB 332** (Attachment #2). She answered questions of members of the Committee concerning types of technology contemplated to be covered by the individual development account program.

Mary Ellen O'Brien Wright, Executive Director of the Kansas Assistive Technology Cooperative, presented testimony in support of **SB 332** (Attachment #3). She described the development of KATCO and responded to questions from the Committee.

Testimony in support of the bill was presented by Candy Shively, Deputy Secretary of Integrated Service Delivery of the Department of Social and Rehabilitative Services (Attachment #4). She explained how the accounts would be administered. In response to questions she testified that SRS assumed the maximum amount of $50,000 allowed to be accumulated would include matching amounts.

CONTINUATION SHEET

Jennifer and Jessica Schwartz of Lawrence presented testimony in support of the bill (Attachment #5) and described the extraordinary expenses incurred by families of children with disabilities.

In support of **SB 332**, Deborah Page-Adams, Ph. D., of the School of Social Welfare of the University of Kansas, presented testimony on research which has served as a foundation for the rapid growth of individual development account policies and programs across the country in recent years (Attachment #6).

Hearing was closed on **SB 332.**

Hearing was opened on
SB 231 - Establish the family development account program and family development account reserve.

Senator Haley presented testimony in support of the bill (Attachment #7) and made reference to written testimony of State Treasurer Tim Shallenburger (Attachment #8). Senator Haley responded to questions of members of the Committee.

Laura Loyacono, Manager of Public Affairs of the Ewing Marion Kauffman Foundation, presented testimony in support of the bill (Attachment #9) and described programs supported by the Foundation that would indicate the need for **SB 231.**

The Committee recessed at 9:45 a.m. and reconvened at 1:00 p.m.

Ned Webb, Director of the Community Development Division of the Kansas Department of Commerce and Housing presented testimony that the bill was "more of a social service program that doesn't blend into the mission of KDOC&H, which is to provide leadership to ensure economic opportunity for Kansans (Attachment #10). He stated the Department was not in favor or opposed to the bill. He responded to questions from members of the Committee.

Testimony was presented in support of the bill by Karen Edwards, Project Coordinator for the Center for Social Development at Washington University in St. Louis (Attachment #11). She presented information on IDA programs in 47 states and described potential increases in federal support for the programs. She provided information in response to Committee questions.

Hearing was closed on **SB 231.**

Chairman Edmonds appointed a subcommittee consisting of Representative Osborne, Chair, Representative Cook and Representative Flora to study **SB 231** and **SB 332** and report their recommendations.

Representative Palmer moved to amend **SB 35** by inserting the contents of **HB 2408**. Representative Vickrey seconded and motion was adopted.

Representative Palmer moved that **SB 35** be recommended favorable for passage as amended. Representative Vickrey seconded and motion was adopted.

Representative T. Powell moved to amend **SB 39** by adopting the balloon amendment. Representative Gatewood seconded and motion was adopted.

Representative T. Powell moved to recommend **SB 39** favorable for passage as amended. Representative Newton seconded and motion was adopted.

Meeting adjourned at 1:35 p.m. Next scheduled meeting is March 27.

HOUSE TAXATION COMMITTEE

GUEST LIST

DATE March 26

NAME	REPRESENTING
Bill Yanek	KS Assn of REALTORS
NED WEBB	KDOCH
BILL ACREE	KDOCH
Terry Marlin	KDOCH
Richard Cram	KDOR
Chris Smith	KU
Josie Torrez	KCDD
Deb Page-Adams	KU
[illegible] Schwartz	
Martha Jean Smith	KMHA
[illegible]	KDHR
Laura Loyacono	Kauffman Foundation
Karen Edwards	CSD, St. Louis
Ann Durkes	DOB
Karl Peterjohn	KS Taxpayers Network
Christy Caldwell	Topeka Chamber of Com
J.P. Small	NMHC
K. Barone	Hein Law

Testimony to the House Committee on Taxation
In Support of Bill 332
Christopher L. Smith, Ph.D
Assistive Technology for Kansans Project
Kansas University Affiliated Program-Parsons
2/20/01

Mr. Chairman and Members of the Committee:

Good Morning, and thank you for the opportunity to speak today. My name is Chris Smith, and I work for the Assistive Technology for Kansans project. This project is coordinated by the University of Kansas and is directed by individuals who have disabilities. Over 60 agencies and organizations that provide services to persons with disabilities are actively involved with the efforts of the Project.

I am here today on the direction of the Project's Executive Advisory Board to speak about the importance of Individual Development Accounts and their potential for funding assistive technology. As I'm sure many of you are aware, Individual Development Accounts are matched savings accounts which are similar to Individual Retirement Accounts or IRA's. In an IDA program, for every dollar a person saves for the identified purpose of home ownership, education, or small business; matching funds are pledged from local, state or federal sources.

Match amounts are determined by a coordinating entity but generally range from 2:1 to 5:1. The funds for matching the saver's contribution are raised from private and/or public sources. As of August 2000, 29 states had passed legislation allowing Individual Development Accounts, including Kansas. Nationally, over 400 non-profit organizations are involved in managing IDA programs. A wealth of research on IDA programs indicates that they are critical in helping people to reach financial independence. Evaluation of IDA programs over the last four years indicates, for example, that persons in poverty who participate in IDA programs actually save more as a percentage of their income than do middle income persons.

For persons with a disability, IDA's represent a critical path to economic independence. Data are startling in their portrait of how persons with disabilities struggle to achieve economic and personal independence. For instance, persons with disabilities make up as much as a third of all persons on state welfare rolls. According to a 1998 Harris Poll, as many as 75% of persons with disabilities are unemployed, though 75% of those want to be employed. One out of five persons with a disability has not graduated from high school, compared with one out of ten

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adults without a disability. In 1997, over one-third of adults with disabilities lived in a household with an annual income of less than $15,000, compared with only 12% of those without disabilities. Home ownership rates for people with disabilities is in the single digits, while it is about 71% for those without disabilities.

The important thing to remember is that IDA policy and programs, like other programs for persons without disabilities, works just as well for those with disabilities. For many people with disabilities, assistive technology is the key to accessing the home ownership, education, and small business opportunities offered by IDA programs. Assistive technology is any device or service that helps a person live, learn, or work more independently.

Assistive technology devices may include such items as powered wheelchairs, communication devices that help people speak, digital hearing aids, and computer software that helps persons with disabilities to access their computers and the power of the Internet for learning and business. Creating opportunities for persons with disabilities to use IDA funds for assistive technology will greatly enhance the chances that they will maximize the economic benefits available from the accumulation of assets like homes, education and small business ownership.

Persons with disabilities need this legislation now. Passing this legislation will be an important and wise step in a public policy that recognizes that building assets is a crucial and necessary step in creating economic independence. Senate Bill 332 creates an opportunity to fund assistive technology as an approved expenditure for IDA's that will establish Kansas as a leader in recognizing how important accessibility is to enjoying the fruits of owning a home, going to college, or owning a small business.

Thank you.

Assistive Technology For Kansans

A Project Coordinated by the University of Kansas At Parsons

For Statewide Information and Referral Phone 800-526-3648 (Voice & TTY)

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TESTIMONY PROVIDED TO HOUSE TAXATION COMMITTEE
PRESENTED BY BRENDA EDDY
ASSISTIVE TECHNOLOGY FOR KANSANS (ATK)
MARCH 26, 2001

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to speak to you today. I represent the Assistive Technology for Kansans project (ATK). ATK is a federal grant program funded through the Technology Related Assistance Act of 1988 and awarded to the University of Kansas University Affiliated Programs at Parsons. Our purpose is to ensure that Kansans with disabilities have access to assistive technology and related services. Our program consists of five regional assistive technology access sites; a statewide interagency technology loan program, an annual statewide assistive technology conference, a policy and systems change initiative, and legal advocacy assistance.

The assistive technology grant was written to be a consumer-driven, partnership project. We sub-contract with nine organizations around the state for various components related to assistive technology. Our collaborative efforts with public agencies have resulted in systems change that have increased access to technology for people with disabilities of all age groups. In eight years, we have created an effective infrastructure of technology related support. Our state's tech project is gaining national recognition as a frontrunner for innovative approaches to accessing technology.

Assistive technology offers some of the most promising solutions today for people with disabilities. In spite of the independence assistive technology offers, many people do not have access to the technology they need due to funding barriers. Some assistive technology is low-tech in nature and not costly. However, the majority of high-end assistive technology is quite expensive, has a limited life expectancy, and must be replaced periodically. Here are some examples:

- A power wheelchair – $14,000 – life expectancy, 7 years
- A communication board – $8,000 – life expectancy, 5 years
- Digital hearing aids – $2,500 each – life expectancy, 5 years
- A motorized scooter – $3,000, life expectancy, 7 years.
- An environmental control unit – $10,000 – life expectancy, 5 years
- A van lift - $10,000 – life expectancy, 8 years

There are federal and state programs that help purchase assistive technology. Special Education, Medicaid, Vocational Rehabilitation, and Veterans Administration are several examples of such programs. However, not everyone meets the eligibility guidelines for such programs. Additionally, most private health insurance policies offer limited or no coverage for assistive technology. Banks traditionally have not been very willing to extend loans for assistive technology due to the fact that this equipment is usually individualized for the user. The bottom line is - funding sources for assistive technology for people who do not qualify for public assistance programs are very limited.

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Individual Development Accounts, as proposed in SB 332, would provide a structured savings approach for low and moderate-income people with disabilities to help them plan and save for their assistive technology. Most people who use expensive AT worry about how they will pay for their equipment when it needs replacing. They worry about how they will keep their jobs if their wheelchairs break down and they can't afford to replace them. They sometimes wonder if they would be better off going on public assistance so they can get the AT they need. We believe that establishment of IDAs for assistive technology will afford many of these people the opportunity of becoming (or remaining) self-sufficient and in the economic mainstream. We believe this self-sufficiency would result in less dependency on public assistance. It would also be a tremendous resource for families faced with high medical costs that often accompany a child with a disability.

Individual development accounts for persons with disabilities are a creative resource that offers financial solutions in a dignified and empowering way. It offers the potential to develop new mindsets to enable people with disabilities to become confident, long-term planners and savers. With the establishment of IDAs, the golden doors of American philanthropy are formally opened for us to seek matching funds. In 1999, total charitable giving amounted to $190 billion and foundation giving rose 17.2%. IDAs would provide a powerful opportunity to partner with the private and corporate sectors to address some of the problems facing people with disabilities today.

We are excited by the possibilities IDAs offer and hope you too will see the potential for utilizing IDAs for people with disabilities. We ask that you pass Senate bill 332 with no further amendments so we can proceed to the Governor for signature. This bill passed unanimously through the Senate taxation committee with some technical amendments, which we can live with. Establishment of IDAs this session will enable us to aggressively seek federal grants available this summer that can be used as matching funds.

Thank you for your consideration. I will be happy to try and answer any questions you may have.

3-1

Testimony Before the House Taxation Committee
In Support of Senate Bill 332
By Mary Ellen O'Brien Wright
Kansas Assistive Technology Cooperative (KATCO)
March 26, 2001

I am Mary Ellen O'Brien Wright, the Executive Director of the Kansas Assistive Technology Cooperative or KATCO, and I am here today in support of Senate Bill 332.

KATCO is a loan guarantee program that allows people with disabilities to obtain financial loans for assistive technology. KATCO was established following an appropriation made several years ago by Governor Graves to provide funds for an assistive technology financial loan program. Last fall, the *Assistive Technology for Kansans* (ATK) project was awarded one of only six federal grants to develop and expand KATCO.

KATCO provides an alternative for people with disabilities to finance assistive technology. Loans are available to any individual of any income level with a disability needing assistive technology. The loans have proven particularly helpful for people with lower incomes, and those who have no credit background or problems in their credit history, sometimes related to disability and medical expenses.

If you were to ask most users of assistive technology what the greatest problem they encounter when trying to obtain it, I believe they would say funding. While much assistive technology is not costly, some is very expensive and not always covered by third party payers. Yet the assistive technology is often essential for health and safety reasons, as well as to work, participate in education and training programs, and live independently.

The *ATK* project is always seeking new funding sources for assistive technology. The development of KATCO was one of the results of this endeavor. Now, the establishment of Individual Development Accounts (IDAs) may be another method. *ATK* has been interested in this concept for several years, however it has become particularly important this year because we feel that we have an opportunity that may not be available in the future. President Bush, in his recently announced *Freedom Initiative,* is committed to providing access to assistive technology to people with disabilities through financial loan programs. Approximately fifteen million dollars in funding for this part of his initiative will be available this summer.

Kansas is considered a leader in the area of assistive technology access. The concept of allowing people to save for assistive technology while matching these dollars, protecting their benefits and providing a tax credit is, we believe, an innovative idea. KATCO, partnering with the *ATK* project, believe that our chances of receiving a grant through this initiative is excellent if we have the mechanism to allow people

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with disabilities to begin saving for their assistive technology through IDAs. By allowing Kansans with disabilities to establish these accounts, you will put Kansas in an excellent position to access some of these funds.

Eventually, KATCO will also seek matching dollars in the private sector, and partner with them to increase access to assistive technology. In a year when there is concern regarding state revenue, I can understand your concerns about the fiscal note attached to this bill. I have already indicated that, initially, we are not looking toward the private sector for these matching funds, but rather to federal grant dollars. Perhaps in several years we would begin looking for private donations. However, fund raising is a very new area for us, and one in which we have little experience. It is doubtful that we would be able to solicit enough money to achieve the maximum tax credits allowed in this bill in the near future. At this time it would be a dream to achieve a $100,000 in private donations, which would mean tax credits of less than $25,000. And even this amount would not be attained any time soon.

KATCO asks for your positive consideration of Senate Bill 332, allowing us to establish Individual Development Accounts for the purpose of people with disabilities saving for assistive technology, as well as to put us in a position to seek federal grant dollars during the summer of 2001.

Thank you for your time and consideration.

Kansas Department of Social and Rehabilitation Services
Janet Schalansky, Secretary

House Taxation Committee
9:00 a.m., March 26, 2001

SB 332

Mr. Chairman and members of the committee, thank you for the opportunity to appear today regarding Senate Bill 332. My name is Candy Shively, Deputy Secretary of Integrated Service Delivery, SRS.

This bill establishes an "individual development account" (IDA) program within the Kansas Department of Social and Rehabilitation Services (SRS). Eligible families and individuals would have the opportunity to establish these special savings accounts to use in the purchase of assistive technology.

From calculators to computers, and televisions to telephones, technology has a great impact on the everyday life of most Kansans. Increasingly, the power of assistive technology is being used to help people with disabilities live and work independently. Assistive technology can be as simple as using an off-the shelf device, such as a magnifying glass to enable a person with visual impairments to read a document. At the other end of the continuum, assistive technology can be highly customized equipment designed to accommodate an individual's specific situation. Examples include specialized communications boards, programmable hearing aids, refresh able braille, voice recognition computers, and power wheelchairs.

This bill would allow a family or individual whose household income is less than or equal to 300% of the federal poverty level to open an assistive technology IDA. The total of all deposits by the account holder or family shall not exceed $5,000 in a calendar year. The total balance at any time, including matching contributions, shall not exceed $50,000. Funds deposited and interest earned in such accounts will be exempt from Kansas income tax unless withdrawn for an unapproved purpose.

Funds deposited and interest earned in such accounts would also be disregarded when determining eligibility to receive any public assistance or benefits in accordance with Section 7(d) of the bill. We would note that, for some assistance programs this would be possible, while others might prohibit such asset exemptions in federal statute or regulation. As a result, SRS would anticipate some increase in costs of public assistance programs due to the ability of families to shelter this resource. However, allowing such persons to accumulate resources for this specific purpose would not measurably effect caseload size.

Additionally, the bill directs SRS to prepare a Request for Proposals seeking a community-based organization to administer a reserve fund on a not-for-profit basis. The reserve fund would be created to receive contributions, to fund administrative costs of the program, and to provide matching funds for moneys in individual development accounts. Financial contributions to the reserve fund could come from a variety of sources, including the federal government. No more than 20% of the funds in the reserve account may be used for administrative costs in the first and second years, and no more than 15% in subsequent years.

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House Taxation Committee
Testimony In Support of Senate Bill 332
Jennifer and Jessica Schwartz
March 26, 2001

Thank you for the opportunity to speak with you today in support of Senate Bill 332. This bill would have an effect on our family and others in a variety of ways.

Having a child with a disability is often a unique experience. Our daughter, Jessica, has a disability. One of our greatest challenges is the continuous job of trying to find funding for the devices and services she requires. SB 332 allows individuals to save for needed equipment (assistive technology). Jessica is a nine-year-old third grader who uses a variety of equipment. Our private insurance and Medicaid covers some of the items needed, but not everything. At this point Jessica needs a stand-aid for use at home, a reverse walker, and an electrical stimulation machine. Each of these items has been recommended for Jessica by her physical therapist, but our insurance won't cover them. Using each of these items would assist Jessica in gaining muscle tone and will work to prevent surgeries and other invasive procedures.

The items listed above total $2500-3000. Without saving we cannot come up with this amount of funding. The next roadblock we run into is that Jessica is qualified for Medicaid. In order for her to stay qualified for Medicaid, she cannot have assets beyond $2000. So, saving for items isn't always an option for us. When SB 332 is enacted individuals will be able to save the amount needed for assistive technology without being disqualified for state sponsored programs, such as Medicaid. It would also provide an option for federal grants and/or private sources to match the funds our family would invest into an Individual Development Accounts (IDA).

SB 332 is a way for individuals with disabilities to save and purchase their own equipment. As parents we want to provide for our children, although the expense is at times difficult to overcome. This legislation will allow us to do that.

The concept of allowing people to save for assistive technology while matching these dollars is a dignified way that families of children with disabilities can afford some of their technology needs. Our family asks this committee to act favorably on SB 332. This bill will bring us one step closer to independence for all people including those with disabilities.

Thank you for you time

Jennifer and Jessica Schwartz
2459 Maverick Lane
Lawrence, KS 66046
(785) 832-8353

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To: Kansas House of Representatives Committee on Taxation

From: Deborah Page-Adams, Ph.D.
University of Kansas
School of Social Welfare

Date: March 26, 2001

RE: RESEARCH ON ASSET EFFECTS

As you consider the creation of Individual Development Account (IDA) policies to help low-income, low-wealth, and disabled citizens, a brief summary of research studies addressing the effects of home ownership and other tangible assets on the well-being of neighborhoods, children and families may be helpful. Published research reviews that I have written with my colleagues Michael Sherraden at Washington University in St. Louis and Edward Scanlon at the University of Washington in Seattle suggest positive effects of financial and property assets on:

- Children's well-being
- Marital stability
- Family health and
- Economic security.

As you may know, this kind of research has served as a foundation for the rapid growth of Individual Development Account (IDA) policies and programs across the country in recent years.

In addition, one of the measures you are considering today represents an especially innovative approach to using IDAs to help Kansans who have disabilities and need help saving money to purchase assistive technology in order to better secure their social and economic well-being, and that of their families.

My findings from on-going research and evaluation of two IDA programs through Heart of America Family Services are parallel to those from other asset building initiatives in the United States in that: (1) low-income and low-wealth participants are saving for long term social and economic well-being through home ownership, small business development, and higher education and (2) participants who have very low incomes are saving for these life goals at especially high rates.

As this research continues, we will learn more about the ways in which asset building may be associated with long-term personal, household, and community well-being for individuals and families of modest means in the Kansas City metropolitan area. Further, if Kansas becomes the first state in the country with a policy to help fund IDAs for assistive technology, it will provide an opportunity to study the effects of asset building for citizens with disabilities and to offer national leadership in this area by sharing our implementation experiences and research results.

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CE
STATE L BUILDING
R 140-N
TOPEKA, KANSAS 66612-1504
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STATE OF KANSAS

DISTRICT
CIVIC CENTER STATION
POST OFFICE BOX 17111
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SENATE CHAMBER

DAVID B. HALEY
SENATOR
DISTRICT 4
WYANDOTTE COUNTY

HOUSE TAXATION COMMITTEE - MARCH 26, 2001

TESTIMONY IN SUPPORT OF SB231
An Act establishing the family development account program and family development account reserve fund

Greetings & Gratitude

Chairman Edmonds; Committee Members,...

INTRODUCTION

☐ A) What is a "family development account" (also known as an "individual development account" or "I.D.A.")?

- Basically, an I.D.A. is a "savings account", of sorts, whereby the account "holder" is of average to low-income (200% of the federal poverty income index) and wherein each dollar contributed by the individual/family is matched at a one-to-one up to a three-to-one ratio.

  Example

☐ B) How does an I.D.A. work?

- Contributions from the individual/family account holder are held at a financial institution and can only be withdrawn (and joined with the matching funds) for specific expenditures approved by a Board.

  Example

ARGUMENT

☐ C) Why does Kansas need family development account programs?

- Statistics prove that few incentives are available to prevent the ever widening gap between the wealthy and the poor and I.D.A's have been successful in helping once chronically dependent poor families to achieve home ownership/higher educational opportunities in other states.

  Example

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☐ D) <u>How</u> much will this Program actually cost Kansas?
- The fiscal note is in great dispute. <u>Recently</u>, and as passed by the Senate, it is estimated to be approximately $519,000.

  <u>Example</u>

CONCLUSION

☐ E) <u>Where</u> do I.D.A.'s generate?
- With the current federal emphasis on individual wealth retention and assistance by community and/or "faith based" organizations, initiatives like I.D.A.'s will generate in Kansas, neighborhood after neighborhood, self enrichment married with private sector participation with a minute, but empowering "incentive" from state government.

  <u>Example</u>

☐ F) <u>When</u> have I.D.A.'s been successfully implemented?
- Family development accounts, according to both N.C.S.L. and A.L.E.C., have been up and running with varying degrees of success in several states (including Missouri and Indiana) but enough from me, please allow me to defer to some "experts" in this area to specifically answer this and other questions!

SB 231 came out of the Senate tax committee unanimously, even with a much higher and disputed fiscal note. SB 231 passed the Senate (38-2), with an amended fiscal note (<u>still</u> higher than the current $519,000.).

Any other questions?____

____

NOTES:____

____

____

____

Thank you for your consideration.

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STATE OF KANSAS

Tim Shallenburger
TREASURER

900 SW JACKSON ST, SUITE 201
TOPEKA, KANSAS 66612-1235

TELEPHONE
(785) 296-3171

Kansas Learning Quest Education Savings Program Report as of March 9, 2001

Total Assets: $40,349,308 (Kansas Residents $23,893,263)

Total Accounts: 11,164 (Kansas Residents 8,257)

Average Assets/Shareholder: $6,545 (Kansas Residents $5,564)

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STATE OF KANSAS

Tim Shallenburger

TREASURER

900 SW JACKSON ST, SUITE 201
TOPEKA, KANSAS 66612-1235

TELEPHONE
(785) 296-3171

March 26, 2001

To: House Taxation Committee

From: Tim Shallenburger, State Treasurer

Re: SB 231

Chairman Edmonds and members of the committee:

I would like to thank you for the opportunity to submit written testimony for SB 231.

First, I want to commend the Legislature, most notably Senator David Haley, for continuing to search for ways to encourage Kansans to save for the purchase of a home, repairs/improvements for a home and job training costs.

The thought behind including higher educational expenses in SB 231 should be applauded as well. However, it is important to note, that Kansas already has an Education Savings Program administered by the State Treasurer's office. The program, entitled Learning Quest, allows account owners to make contributions (that grow tax deferred) to invest for higher education. In addition, the program allows Kansas taxpayers to reduce their state adjusted gross income by the amount contributed for each student, up to a maximum of $2,000 per student per year or $4,000 for taxpayers that are married and filing jointly.

It is my concern, that including higher education costs in the Family Development Account Program would be repeating what the Legislature has already accomplished in establishing the Education Savings Program.

Again, thank you for your time.

Tim Shallenburger
State Treasurer

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ASSET BUILDING

IDAs

A PUBLIC POLICY REPORT FROM THE EWING MARION KAUFFMAN FOUNDATION SPRING 2001

9

Building Assets for Low-Income Americans: Individual Development Accounts (IDAs)

For most people, living the "American Dream" means buying a home, starting a business or going to college. But for many Americans the dream is seemingly unobtainable. One half of all American households have less than $1000 in net financial assets. One third of all households (and 60 percent of African-American households) have zero or negative net financial assets. Up to 20 percent of American households do not even have a checking or savings account.

Yet we know it's impossible to save when many Americans live paycheck to paycheck and do not have the history, knowledge or cash available to help them start saving. And not being able to save continues the cycle of poverty that affects families, generations, communities, cities and the country.

> *Income may feed people's stomachs, but assets change their heads.*
>
> MICHAEL SHERRADEN, author *Assets and the Poor: A New American Welfare Policy*

CREATING SAVINGS AND PRIDE

Regina Blackmon of Kansas City, Mo., never thought she'd be able to save money. She never thought her daughters would be proud of her and she never dreamed of running her own business. But, three years ago Regina's life took a dramatic turn when she entered the Family Asset Building Program at Heart of America Family Services. She found she could set aside $30 a month, which she put into an Individual Development Account, and was matched by another $60 per month.

Since 1997 Regina has been able to make home improvements and save for her children's education. Thanks to information she received through her monthly financial literacy class, she entered the First Step program at the Kauffman Center for Entrepreneurial Leadership, where she received the training she needed to open a home-based business and supplement her income. "I never saved before this," says a beaming Regina. "My daughters have always loved me, but now, they are actually proud of me." ✪

HOW DO WE BREAK THE CYCLE?

While welfare reform initiatives have focused on moving people from welfare to work, that may not be enough, and the idea of asset-development for low-income Americans is beginning to take hold. Individual Development Accounts (IDAs) are a tool to help individuals invest in their futures and could be a strategy for breaking the cycle of poverty.

WHAT IS AN IDA?

An IDA is similar to an Individual Retirement Account (IRA) — it is a matched savings account that can be opened and used for specific purposes. Generally, an IDA account holder may use the account to purchase a home, seek

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EWING MARION KAUFFMAN FOUNDATION

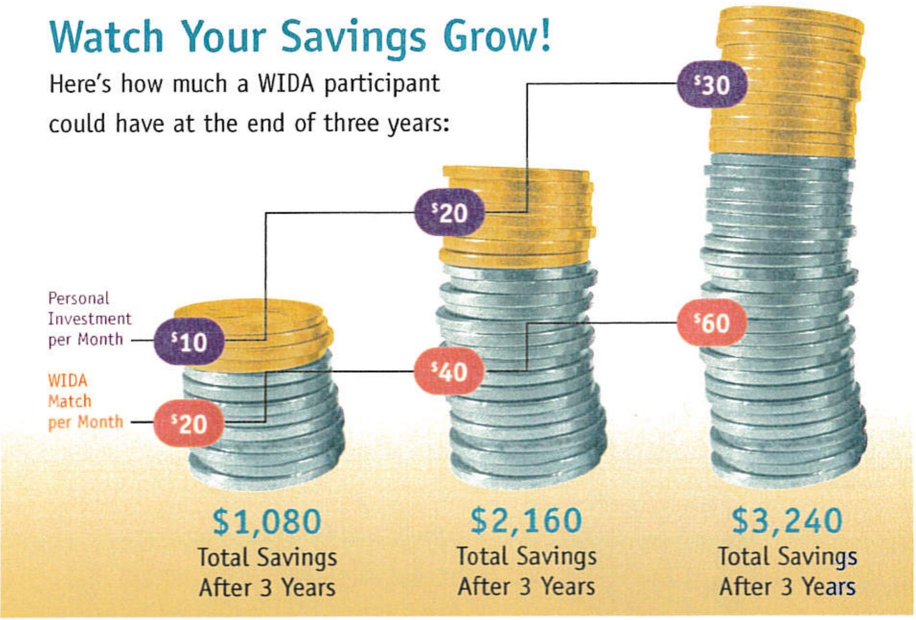
A Case Example

Demonstration Projects in the Kansas City Area

As a participant in the American Dream Downpayment policy demonstration, the Ewing Marion Kauffman Foundation has invested nearly $1 million in supporting the design of IDA programs and in two local initiatives in Westside Kansas City, Mo., and Northeast Kansas City, Kan.

Watch Your Savings Grow!

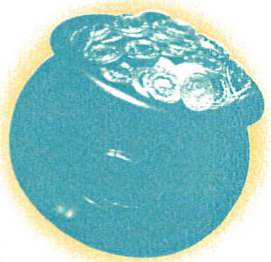
Here's how much a WIDA participant could have at the end of three years:



The Wyandotte Individual Development Account (WIDA) Program in Northeast Kansas City, Kan., is a collaborative effort among Heart of America Family Services, the University of Kansas School of Social Welfare, City Vision Ministries, Firstar Bank and Wyandotte High School. The program began in January 2000 and will run through 2003 as part of the demonstration program. Up to 150 accounts will be established.

PARTICIPANTS IN THE WIDA PROGRAM MUST ...

- Reside in Kansas City, Kan.;
- Be eligible for Temporary Assistance to Needy Families (TANF) or the Earned Income Tax Credit ($26,473 or less annual income for households with one child);
- Provide valid identification (tax returns, etc.);
- Attend six WIDA economic education meetings per year;
- Deposit a minimum of $10 and a maximum of $30 per month into an IDA account;
- Participate in the WIDA evaluation process.



The accounts are to be used for post-secondary education, first-time home ownership and small-business development. The monthly savings are matched two-to-one, allowing participants to save as much as $3,240 during the three-year demonstration project. The K.U. School of Social Welfare is providing faculty and graduate students to help plan and facilitate meetings, support and advocate for IDA participants, and evaluate the program.

"Most people just didn't believe anyone was going to give them money for saving," says Kathy Kane, IDA Program Coordinator for Heart of America Family Services. "It took us a year to get 75 participants. But since then, we have a waiting list. And we've only lost six participants — from family emergencies that made it impossible to save." ✪

The Public Policy around IDAs

IDAs are a community development and public policy tool that are easily adaptable to a wide range of circumstances.

Federal policy: The federal government has become increasingly interested in IDAs. IDAs were incorporated into federal law as part of the welfare reform legislation which permitted states to include IDAs in welfare reform plans and welfare-to-work grants, but did not require states to fund them. The Assets for Independence Act (AFIA - P.L. 105-285) was introduced in 1991 but not signed into law until October 1998. The AFIA authorized the U.S. Department of Health and Human Services to administer a $125 million demonstration project over five years in account matching and administrative support to nonprofit organizations. In December 2000, Congress authorized $25 million for FY2001 and made changes in the federal law that will make the program easier to administer.

Other policies being considered in Congress would further expand IDAs. The Savings for Working Families Act of 2000 (S. 2023), sponsored by Senators Lieberman (D-Conn.) and Santorum (R-Pa.) had bipartisan support but did not make it to a vote. Similar measures have been introduced, to provide a 90 percent tax credit to financial institutions and to provide IDA matching funds and a 50 percent IDA Investment Tax Credit to private sector entities that invest in nonprofits administering IDA programs.

> *Those in the lowest 20 percent of income usually have savings of less than $1,000. Many coming off welfare have never had a personal bank account. But money in the bank builds confidence. It makes us agents of our own destiny.*
>
> *Many people who are now successful can remember how hard it was to save — but how important it was to start. And we can help many Americans make that start. As president, I will propose Individual Development Accounts.*
>
> President George W. Bush, April 2000

State Policy. At least half the states have authorized IDAs. A recent analysis by the Corporation for Enterprise Development found, while they vary in their breadth and design, IDA initiatives generally enjoy support from both parties and pass with wide margins. Several IDA policy strategies employed by states include:

DOWNPAYMENTS ON THE AMERICAN DREAM

The American Dream Downpayment policy demonstration is a six-year project authorized and funded by Congress through the Assets for Independence Act. Conducted at 13 sites nationwide, the project includes more than 2,000 IDA accounts. Deposits made in IDAs are matched one-to-one, up to $500 per account per year. The goal of the project is to create a well-founded core set of community-based IDA initiatives while creating a broad learning network among the burgeoning number of existing IDA programs. Participating community organizations receive operating grants of up to $25,000 per year. The Corporation for Enterprise Development is organizing the demonstration project and the Center for Social Development at Washington University, St. Louis, Mo., is conducting an extensive evaluation to examine implementation, goal attainment, savings behavior, and household and community outcomes, return on investment and policy and program implications.

Funders for the demonstration project include the following foundations: Joyce, Charles Stewart Mott, Ford, MacArthur, Citigroup, Fannie Mae, F.B. Heron, Ewing Marion Kauffman, Levi Strauss, Moriah Fund and Rockefeller.

AN THE POOR SAVE?

According to Michael Sherraden, director of the Center for Social Development, Washington University, St. Louis, Mo., saving and asset accumulation are largely a matter of structures and incentives, not merely personal preferences or lack of character. It is generally believed that saving occurs when an individual forgoes current consumption in order to have greater consumption in the future. ***Savings** refer to a flow of economic resources. **Assets** are stockpiles of economic resources. **Asset accumulation** refers to an increase in wealth over time.*

"Individuals may save without experiencing observable asset accumulation if they frequently withdraw money from savings," says Sherraden. "Saving is important because it indicates that individuals are willing and able to postpone consumption, even if assets are quickly depleted."

While there are few studies that explain the low rate of savings and asset accumulation in low-income households, the American Dream Downpayment policy demonstration studies will help determine what policies and programs will promote financial self-sufficiency. Preliminary evaluations found strong evidence that IDA account holders can save. Typical account holders made deposits in seven of 10 months and very income-poor households save at a higher rate than less income-poor households.

1. **Direct Appropriation** - States appropriate and distribute matching funds to nonprofits on a competitive basis. Indiana allocated $6.5 million for its IDA program, creating 1,600 accounts. Pennsylvania allocated $1.25 million to its Family Savings Accounts program resulting in more than 1,200 accounts in three years.

> *We have established tax credits for retirement plans, for home mortgages, for college and so on. All of which encourage savings and investment, but none of which lift up those families without wealth or assets. You can't claim a mortgage deduction if you don't own a home. You can't build up a nest egg if you don't have a nest, which is a serious problem for millions of unbanked and unbrokered Americans.*
>
> Senator Joseph Lieberman, Connecticut, co-sponsor, The Savings for Work Families Act.

2. **Tax Credit for Contributions to IDA programs** - Missouri is one of at least five states that provide tax credit or deductions for private contributions to eligible community-based IDA programs. Last year, Colorado authorized $25 million in tax credits for matching IDA contributions.

3. **Welfare Reform** - 1996 federal legislation allows states to establish IDA programs for individuals on public assistance for postsecondary education, purchase of a first home or to start a business. Several states, including Missouri, include IDAs in their Temporary Assistance to Needy Families (TANF) plans and are considering using federal TANF funds for IDAs. Virginia received $500,000 in TANF funds to start an IDA program.

4. **Allocation of CDBG Funds** - Several states use their Community Development Block Grant (CDBG) for IDAs.

5. **Refundable Tax Credits to IDA Account holders** - Iowa provides a 20 percent refundable tax credit on savings of up to $2,000 per year into an IDA.

6. **Wage Subsidies Deposited into IDA-like Accounts** - Nine states have enacted employment programs as part of welfare reform and subsidize employment for welfare recipients. Massachusetts, Mississippi and Oregon require employers to place $1 for every hour worked into restricted savings accounts for the employee's future education or job training.

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Helping Kids to Save

"Every economically advanced nation, except the United States, has some form of children's allowance (monthly payment to families with children) for consumption support. Western European nations spend an average of 1.8 percent of the GDP on children's allowances. Imagine what the United States would be like in terms of class and race divisions if every child grew up with an asset account for post-secondary education, home ownership, business capitalization and other life goals."

~ Michael Sherraden, Center for Social Development

Children learn what they see from the examples around them. If their families can't save — because they don't have the income, knowledge or experience — certainly how to, or the value of saving, will be lost on the next generation, and the cycle continues. When most young people get their first jobs as teens, there is a prime opportunity to teach, or support, good financial habits that will serve them the rest of their lives. A few IDAs specifically for children have been created with life-long teaching opportunities in mind.

> *What difference would it make if every child in this country grew up knowing that he or she had a nest egg to go to college, buy a home or start a business? What benefits would accrue to individuals, families and society on the whole?*
>
> Corporation for Enterprise Development

Children's Savings Accounts are long-term savings and investment accounts established for every child in the U.S. for the primary purpose of financing post-secondary education and training and the development of other appreciating assets. In Congress, Democrats and Republicans have explored the notion of creating federal legislation to establish savings accounts for all of America's children. While no federal laws have passed, state and local programs have experimented with programs for children.

In San Francisco, Juma Ventures launched MoneySmart, a youth IDA program. Juma, a nonprofit organization dedicated to providing low-income youth with employment and skills training, has designed its program around the needs of young people. Allowable uses for MoneySmart include post-secondary and/or vocational education, rent assistance, first-time home ownership, small businesss development, child care necessary for education or employment and the purchase of computers. Juma provides a three-to-one match for savings for higher education and a two-to-one match for all other expenses. Central to the program mission is personal finance training for youth.

The Youth$ave IDA program in Portland, Ore., offers a combination of education about personal finance and economics, youth IDAs and earning opportunities. Supported by REACH Community Development Corporation, Youth$ave's IDA participants can save for education, artistic endeavors (such as band instruments) athletic equipment and sports or club fees.

In Denver, the Young Americans Bank is the only bank in the world exclusively for young people. Founded in 1987 by the late cable television pioneer Bill Daniels, the bank is a state-chartered, FDIC-insured institution. In 1988, the Young Americans Education Foundation was established as a nonprofit organization to provide financial literacy programs for youth and curriculum and training courses for classroom teachers who want to teach concepts having to do with money and finance.

"Building Assets ..." continued from page 1

postsecondary education or start a business.

An individual makes contributions to his or her account on an average of $23 per month. Matching contributions can come from public, nonprofit and/or private sources (funding partnerships are common). Individual deposits are generally matched two-to-one but some programs match at much higher rates, up to seven-to-one. An organization administers the program and monitors the individual accounts, provides money management and financial literacy training and authorizes account withdrawals. The funds are held in a designated financial institution until the account holder is ready to make an approved expenditure.

Community organizations counsel and monitor participants, provide money management, build financial skills through training, control matching funds and authorize participants' withdrawals.

WHY ARE IDAS EFFECTIVE IN PROMOTING FINANCIAL SELF-SUFFICIENCY?

Without assets, poor families are likely to remain poor. Traditional poverty-fighting programs may provide for basic needs: food, shelter and sometimes health care. Other programs may provide skills training and other services related to moving individuals off the welfare rolls. In many cases, however, welfare programs penalize families who have accumulated assets by cutting off their public aid, thus perpetuating a cycle of poverty and dependence.

Programs that encourage low-income Americans to become financially self-sufficient allow people to plan for their future and for their children's futures. ✪

DID YOU KNOW?

1. Ten percent of all families control two-thirds of the wealth.
2. One half of all American households have less than $1,000 in investable assets.
3. One third of all American households (and 60 percent of African-American households) have zero or negative net financial assets.
4. More than 10 million Americans do not have a bank account.

Source: Corporation for Enterprise Development

FOR MORE INFORMATION

Corp. for Enterprise Development
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202-408-9788
www.cfed.org

Center for Social Development
Washington University
St. Louis, Mo.
314-935-7433
http://gwbweb.wustl.edu/users/csd

IDA Network
www.idanetwork.org

Aspen Institute
www.aspeninstitute.org
202-736-5800

National Conference of State Legislatures
Denver, Colo.
303-830-2200
www.ncsl.org

Heart of America Family Services
Kansas City, Mo.
816-871-7106

Young Americans Bank
Denver, Colo.
www.theyoungamericans.org

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SELF-SUFFICIENT PEOPLE IN HEALTHY COMMUNITIES.

Testimony on SB231
Presented to the House Committee on Taxation
By Ned Webb, Director, Community Development Division
Kansas Department of Commerce & Housing
March 26, 2001

Mr. Chairman and members of the Committee on Taxation, my name is Ned Webb and I am the Community Development Division Director for the Kansas Department of Commerce & Housing. My division administers the Kansas Community Service Tax Credit (CSTC) program and if SB231 becomes law we will be assigned to develop rules and regulations and administer the Family Development Act. We are here today to neither speak in favor of or against this bill, but rather we would like to point out some concerns we have about the bill.

SB231 established the family development account (FDA) act that is targeted at families with incomes below 200 percent of the federal poverty rate. The FY2000 poverty income for a family of four is $17,050. Kansas families of four making less than $34,100 would be eligible to establish a FDA. Five hundred thousand dollars of Kansas income tax credits will be allocated to Community Based Organizations (CBO's) whose function is to recruit banks to participate in the savings program, to market the program to qualified families, and to perform the required income documentation. The CBO's will market 25 percent tax credits to raise funds that will be used to match individual contributions on ratios provided in the bill from 1:1 to 3:1. The KDOC&H will seek to establish CBO's statewide through a competitive request for proposals (RFP).

Banks will certify the cost of maintaining individual development accounts and will be exempt from privilege tax on the accounts. The KDOC&H will monitor CBO's for compliance with the law, issue and approve individual sales of the tax credits, and allocate the credits.

We have reviewed SB231 using our experience with the CSTC program as a guide.

We are concerned that SB231 is more of a social service program that doesn't blend into the mission of the KDOC&H, which is to provide leadership to ensure economic opportunity for Kansans. Admittedly, a small function of this program is to allow these accounts to be used as a down payment on a business, but given financing standards of 20 to 40 percent equity on startup business, it is unlikely that these accounts will be heavily used for this purpose. Educational costs, and possibly repairs to homes, would appear to be higher priority uses. This bill uses state tax credits to establish individual's savings accounts, but does not create new jobs nor does it substantially create new wealth within a community.

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The fiscal note attached to this bill indicates that it will require one FTE to administer this program because of the need for rules and regulations, selection of CBO's, allocation of tax credits, certification of the credits, issuance of the credits, monitoring of CBO's and matching bank reporting of development account activities with match and income qualification at the CBO's. The bill will require an extensive administrative process to be developed for a three-year program. There are several points contained in this bill that are unclear or raise questions about the process.

The determination of family income can and is a problem in rural areas. If gross incomes are used, all farm families will be excluded. Net income, depending on accounting methods, can qualify certain sole proprietorships and farm families even though they may have substantial assets that would not qualify them as meeting the 200 percent of poverty threshold.

A question has been raised about the qualification of persons owning the FDA. Is the person to qualify each year? We believe that is the only way to prevent abuses, but the bill is unclear.

It would appear that both a husband and wife could own a FDA. If that is true, then 1040 income and deductions would have to be split to determine income eligibility or are we dealing with family like in the Community Development Block Grant program, which counts the income of both husband and wife when computing family income. The poverty standard is based upon family income.

The bill provides that in the case of a withdrawal of funds from the FDA for a non-allowed purpose, that the CBO contribution is returned to the CBO. The individual will get their initial investment back. If a portion of the account is withdrawn for a non-allowed purpose is the whole account void?

The bill provides that in the case of death and a beneficiary who cannot accept the account proceeds, all the accounts will go to the CBO. This seems to imply that the beneficiary must also income qualify.

We are concerned about rural areas of the state lacking the capacity and enough concentration of qualifying applicants to be able to take advantage of this program. There doesn't appear to be an incentive to form regional CBO's to service rural Kansas.

The bill refers to tax credits. Are these only individual income tax credits or do they include corporate, banks, privilege tax, and insurance premium tax?

Community Service Tax Credit recipients have trouble utilizing 50 percent credits in urban areas, how will 25 percent credits compete. These (FDA) credits will compete with CSTC. The higher value credits will be sold first. Rural CSTC are 70 percent.

I would be happy to answer any questions the committee may have.

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My name is Karen Edwards and I am Project Coordinator for the Center for Social Development (CSD), at Washington University, in St. Louis.

Dr. Michael Sherraden, CSD director, who was born and raised in Junction City, Kansas, originated the concept of IDAs in the 1980s. In 1991, he wrote the book: *Assets and the Poor: A New American Welfare Policy*, M. E. Sharpe, Armonk, N.Y., in which he defines IDAs and outlines how they can be used most effectively to help Americans establish greater economic security.

IDAs are matched savings accounts, targeted at low-income individuals and families, to be used for specific purposes such as homeownership, small business capitalization, and post-secondary education or job training. The matching dollars are contributed by private and public sources, such as corporations, financial institutions, foundations, churches, individuals, and local, state, and federal governments. IDAs are designed to give the working poor, who are typically excluded from governmental tax incentives, the opportunity to save and purchase high-return assets. It usually takes from one to four years of savings, with match, to purchase a goal asset.

There are currently over 400 IDA programs operating, or in developing stages, at the community level, across the United States. We know of IDA activity in at least 47 states.

IDA policy development has been equally impressive. Since 1991, when Dr. Sherraden's concept began to be widely circulated:

- **32** states have included IDAs as a possible use for TANF funds, in welfare reform plans.
- **29** states have passed legislation creating IDA programs, including Missouri, Iowa, Texas, Oklahoma, Arkansas, and Colorado (all of which have operational programs).
- **8** states have created IDA programs by administrative rule.
- **9** states have appropriated funds for matching dollars and administrative costs for IDAs, including Indiana, Minnesota, North Carolina, and Pennsylvania.
- **9** states have appropriated tax credits for IDAs, including Missouri and Colorado
- **13** states have allocated TANF funds to IDA programs, including Ohio, Michigan, Arkansas, Oklahoma and Texas.

State and federal level IDA legislation has been a bipartisan effort. At the federal policy level, the Assets for Independence Act (or AFIA), sponsored in the House and Senate by both a Democrat and a Republican, was signed into law on October 27, 1998. This five year, federally funded, pilot IDA program is administrated by the Dept. of Health and Human Services, and is intended to create tens of thousands of IDAs over five years. Monetary awards, which match non-federal funds raised, on a dollar for dollar basis, are granted each year, to sites chosen by RFP. $25 million was appropriated for this program, for the 2001 budget year. Awards as high as $1 million per program, or collaborative, have been granted. The Heart of America IDA program, in Kansas City, and the United Way IDA collaborative in St. Louis are current recipients of AFIA awards. Non-federal dollars may be matched, under AFIA, and several state governments are partners in collaboratives that have been awarded AFIA funds. AFIA requires that both rural and urban areas be funded.

President George Bush supports IDAs, and held a campaign event in Ohio specifically dedicated to IDAs. On April 11, 2000, then Governor Bush pledged to create 1.3 million IDAs, using tax credits to financial institutions to fund IDAs. Legislation has been proposed, in the 2001 Congressional session, to do this.

United Way of America has endorsed IDAs, and the United Way of Greater St. Louis is implementing a three year pilot IDA program, which began in 2000, at six sites in the St. Louis area. The St. Louis United Way has committed over $850,000 to the program, to be used for match and program administration funds. Over 25 United Way organizations, across the country, are supporting, or planning to support, IDA programs, and another 29 have expressed interest in doing so.

House Taxation

For further information you may go online at: http://gwbweb.wustl.edu/users/csd , under "State IDA Policy." You may also contact me at karene@gwbmail.wustl.edu.

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